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Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 PA-02 OPR-02 /104 W
----------063640 111519Z /66
R 102016Z MAR 78
FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 4869

UNCLAS BUENOS AIRES 1784

E.O. 11652: N/A
TAGS: EFIN, ALOW, AR
SUBJECT: INFLATION IN FEBRUARY

1. THE CONSUMAR PRICE INDEX (CPI) ROSE 6.2 PERCENT IN FEB-
RUARY, THE LOWEST MONTHLY RATE SINCE APRIL 1977 AND A SHARP
DECELERATION FROM THE 13.4 PERCENT RATE REGISTERED IN
JANUARY. DURING FEBRUARY THE DEVALUATION OF THE PESO IN
RELATION TO THE DOLLAR WAS 6.3 PERCENT, THE FIRST TIME
UNDER THE CURRENT GOVERNMENT THAT THE RATE OF
DEVALUATION IN A MONTH HAS EXCEEDED THE RISE IN CPI.
THE BREAKDOWN OF THE CPI PERCENTAGE INCREASES BY SECTOR IN
FEBRUARY IS AS FOLLOWS: FOOD 6.0; CLOTHING 4.3;
HOUSING, FUEL AND ELECTRICITY 3.2; HOUSEHOLD FURNISHINGS
AND OPERATIONS 7.2; MEDICAL CARE 8.4; TRANSPORTATION AND
COMMUNICATIONS 4.4; RECREATION AND EDUCATION 11.3; AND
MISCELLANEOUS 11.0.

2. THE WHOLESALE PRICE INDEX (WPI) HAS INCREASED 5.3 PERCENT
IN FEBRUARY, MAINLY AS A RESULT OF NON-AGRICULTURAL PRICES
WHICH WENT UP 6.5 PERCENT. AGRICULTURAL WHOLESALE PRICES
ROSE ONLY 2.0 PERCENT.

3. THE CONSTRUCTION INDEX ONLY ROSE 2.7 PERCENT IN FEB-
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RUARY, A GREAT IMPROVEMENT OVER THE PERCENT INCREASE IN
JANUARY.

4. COMMENT: ALTHOUGH A 6 PERCENT/MONTH RATE OF INFLATION
IS PROBABLY STILL THE HIGHEST IN THE WORLD, THIS RATE IS
ALMOST CONSIDERED "NORMAL" IN THE ARGENTINE CONTEXT.
THE SHARP DROP TO LESS THAN HALF OF THE INFLATION RATE

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IN JANUARY WAS WELCOME ECONOMIC NEWS IN ARGENTINA AND GAVE RISE TO FAVORABLE COMMENTS IN THE PRESS ABOUT THE IMPROVED PROSPECTS FOR A RAPID RECOVERY FROM THE CURRENT RECESSION. IN PART REFLECTING THE DOWNWARD INFLATIONARY TREND, INTEREST RATES CONTINUED TO FALL FROM THE RECORD LEVELS REACHED IN DECEMBER 1977. FROM AN AVERAGE INTEREST RATE OF 10.2 PERCENT/MONTH (OR ANNUAL COMPOUNDED RATE OF 220.7 PERCENT) GIVEN TO DEPOSITORS ON 30-DAY CD'S IN JANUARY, THE INTEREST RATES ON THE SAME INSTRUMENTS HAD DROPPED TO AROUND 7 PERCENT/MONTH (OR ANNUAL COMPOUNDED RATE OF 125.2 PERCENT) BY EARLY MARCH. THE DECLINE IN INTEREST RATES HAS MADE SAVING IN THIS TYPE OF FINANCIAL ASSETS LESS ATTRACTIVE AND, IT IS HOPED, WILL STIMULATE CONSUMPTION ONCE AGAIN AND PARTICULARLY SALES OF SUCH DURABLE GOODS AS OUTOMOBILES. THE INTEREST RATE DECLINE HAS CERTAINLY STIMULATED A STOCK MARKET BOOM, WITH ROBERTS STOCK INDEX RISING 83 PERCENT IN THE JANUARY 31 - MARCH 10 PERIOD. AT THE SAME TIME, ALTHOUGH THE COST OF BORROWING WAS HIGHLY POSITIVE IN FEBRUARY, THE DECLINE IN BORROWING RATES IS EXPECTED TO CONTINUE AND TO ALLEVIATE SOME OF THE FINANCIAL PRESSURE ON COMPANIES WHICH DEPEND HEAVILY ON CREDIT.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, PRICE INDEXES, FINANCIAL DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 10 mar 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BUENOS01784
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780109-0952
Format: TEL
From: BUENOS AIRES
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780384/aaaactcj.tel
Line Count: 85
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ebb4acc9-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3378002
Secure: OPEN
Status: NATIVE
Subject: INFLATION IN FEBRUARY
TAGS: EFIN, ALOW, AR
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/ebb4acc9-c288-dd11-92da-001cc4696bcc
Review Markings:
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